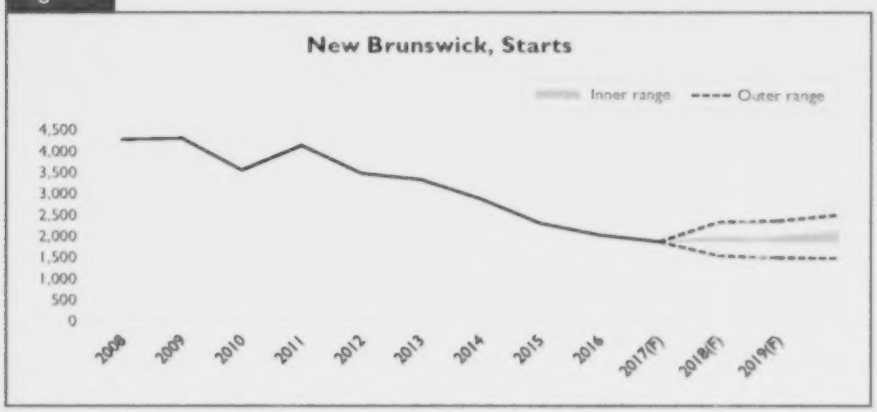
HOUSING MARKET OUTLOOK

Saint John, Moncton CMAs and Fredericton CA

CANADA MORTGAGE AND HOUSING CORPORATION

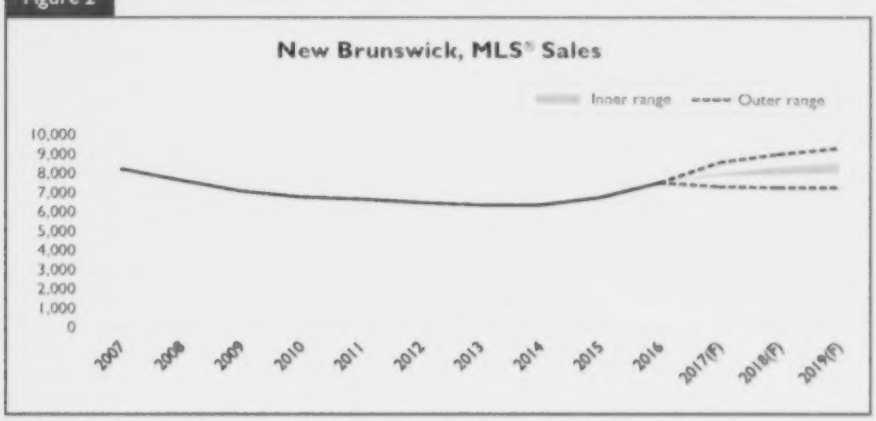
Date Released: Fall 2017

Figure 1



Source: CMHC, (F): Forecast.

Figure 2



Source: CREA; (F): CMHC Forecast.
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Population Growth Will Boost Housing Demand[1]

As a small provincial economy, New Brunswick is heavily influenced by what happens elsewhere in Canada and by what happens in the United States. Over the past decade, New Brunswickers have been moving in droves to the boom provinces of western Canada in search of work. With the drop in worldwide oil prices in 2014, that trend slowed down dramatically and New Brunswick's population has begun to grow again. International migration has also picked up dramatically thanks to new federal-provincial agreements on immigration. These trends will continue over at least the medium term, which will help expand demand for all types of housing in Moncton, Saint John, and Fredericton.

Earnings in the province will be supported by growth in higher income sectors like healthcare and manufacturing. As with population growth, economic factors outside of the province, as well as federal-provincial funding agreements, such as the Canada-New Brunswick Health Accord, will drive income growth.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

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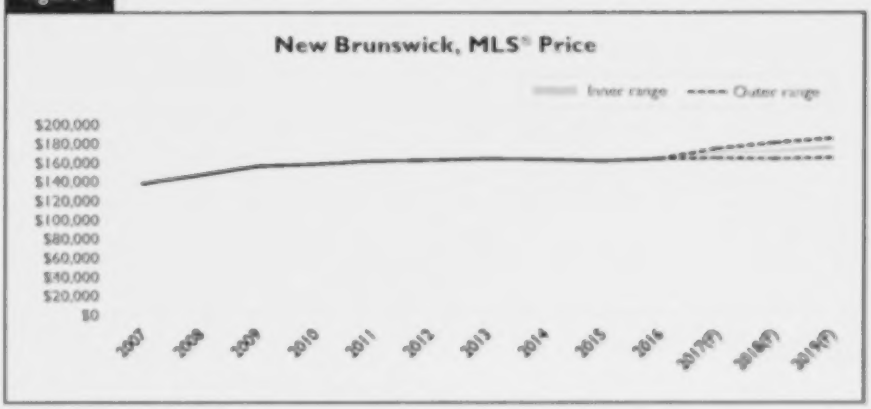
This will support the homeownership markets in the province's three largest urban centres through at least 2019.

Statistics Canada population estimates are used to forecast employment and housing. There is a discrepancy between current annual estimates and the count from the 2016 Census that will not be adjusted until 2018. Our forecasts consider this discrepancy, however, we could see our housing forecasts drift to the lower portions of the outer ranges if the discrepancy turns out to be larger than expected.

Figure 3



Source: CREA; (F): CMHC Forecast.
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Tighter Existing Home Markets

The existing home markets of Moncton, Saint John, and Fredericton have all tightened up significantly over the past year. New listings have been trending down steadily, while sales have increased. In addition to improving economic fundamentals, there are likely some behavioural factors at play as well. For instance, some homebuyers are probably anticipating interest rate increases, which is likely speeding up their purchase decisions. However, interest rates are expected to remain low by historical standards, causing this hurry-up trend to taper off as homebuyers become re-accustomed to the level of rate increases which are expected to be moderate. Consumer confidence in the Atlantic region should remain high, buoyed by expectations of employment growth.

Sales growth leads to price growth, which should draw some hesitant sellers back to the market. This should help moderate price growth over the forecast period as supply will increase in response to price gains. Even with this moderating influence, price gains above inflation are likely for the next two years in each of the three cities.

We will continue to monitor the region's confidence levels. Negative housing news from elsewhere in Canada could shake homebuyer confidence in New Brunswick, slowing sales and price growth to the lower end of their respective forecast ranges. As well, stronger than expected economic growth in Western Canada would strengthen outmigration again and increase supply over the near term weakening price growth into the lower portion of the outer range.

Apartment Starts to Slow

After a long period of downward adjustments in new home construction, starts are expected to stabilize in the three cities. Shortening times on market should provide builders the confidence to start more homeownership projects and pull buyers away from the existing home market. Affordable and senior friendly housing like single-story, semi-detached and row homes, will be growth segments for Moncton and Fredericton next year, while Saint John will continue to be heavily dominated by single-detached construction.

Apartment construction is tightly linked to interest rates, which are expected to increase. However, interest rates should still remain stimulative over the forecast period. A tightening resale market should help baby boomers downsize, making it easier for new apartment buildings to rent up. After a brief surge in apartment construction in 2017, expect apartment starts to fall slightly for 2018 and 2019 as construction costs rise mainly due to higher financing costs.

Tightness on the resale market above what is assumed in our base scenario would push more buyers

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into the new home market. Total starts would then move into the upper portion of the forecast range.

Rental Vacancy Down

Over the medium term, a shrinking migration-age population in New Brunswick's smaller towns and cities means that rental demand growth will come primarily from an increase in new immigrants and not intraprovincial migrants as was the case during the 2000's. The flow of downsizing seniors into newer rental stock will continue, although tighter conditions on the resale market means they will have greater flexibility in the timing of their move to rental housing.

The vacancy rates in the three cities are expected to trend lower over the forecast, although some fluctuations are expected as new stock becomes available and is rented up.

Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.

* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
Saint John CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	127	130	131	150	170	160	180	175	225
Multiples	109	95	20	50	70	85	115	80	120
Starts - Total	236	225	151	200	240	245	295	255	345
Resale Market									
MLS® Sales	1,591	1,679	1,916	1,975	2,085	2,000	2,150	2,025	2,225
MLS® Average Price($)	169,221	163,572	168,221	177,750	180,250	180,000	186,000	182,000	192,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	9.0	8.5	8.5	8.0	7.5	7.1
Two-bedroom Average Rent (October)($)	714	718	720	730	740	750
Economic Overview						
Population	127,119	126,982	127,549	127,650	127,790	127,900
Annual Employment Level	64,300	63,600	63,600	65,800	65,700	66,000

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Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

Forecast Summary
Moncton CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	262	243	240	220	240	230	250	235	265
Multiples	590	349	383	410	470	340	420	330	400
Starts - Total	852	592	623	630	710	570	670	565	665
Resale Market									
MLS® Sales	2,279	2,407	2,679	2,775	2,865	2,825	2,975	2,850	3,050
MLS® Average Price($)	162,300	163,601	164,002	171,250	174,750	175,500	180,500	179,500	184,500
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	8.7	7.4	6.0	4.5	5.0	5.0
Two-bedroom Average Rent (October)($)	762	760	798	815	825	835
Economic Overview						
Population	146,354	147,639	149,744	151,800	154,175	156,850
Annual Employment Level	76,200	78,000	77,700	76,700	79,600	80,400

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Rental Market: Privately initiated rental apartment structures of three units and over.

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Source: CMHC (Starts and Completions Survey and Market Absorption Survey), Statistics Canada, CREA(MLS®), CMHC Forecast (2017-2019).

Forecast Summary
Fredericton CA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	266	178	152	185	195	200	220	205	225
Multiples	132	198	231	200	220	160	200	180	220
Starts - Total	398	376	383	385	415	360	420	385	445
Resale Market									
MLS® Sales	1,726	1,898	2,024	2,100	2,150	2,120	2,200	2,150	2,290
MLS® Average Price($)	178,107	176,870	180,707	180,500	181,700	183,500	186,500	186,500	190,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	5.8	5.5	4.4	4.8	4.6	4.4
Two-bedroom Average Rent (October)($)	809	829	837	860	865	875
Economic Overview						
Population	97,820	98,559	100,061	101,250	102,300	103,275
Annual Employment Level	49,275	50,750	52,775	51,300	52,500	53,000

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Rental Market: Privately initiated rental apartment structures of three units and over.

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Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. CREA(MLS®). CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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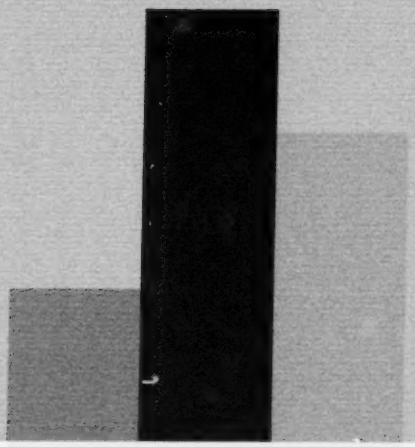

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